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UNCLAS SECTION 01 OF 02 COLOMBO 000763

SIPDIS

For Administrator Tobias from Ambassador Lunstead

ADM AID Dept please pass to USAID

SENSITIVE, SIPDIS

E.O 12958: N/A

TAGS: [EAID](#) [ECON](#) [CE](#)

SUBJECT: Your Efforts to Rationalize Foreign Assistance

¶1. (SBU) I have read with interest the information we have received regarding your efforts to revamp US foreign assistance processes. In that vein, I believe Sri Lanka deserves a closer look and poses interesting questions for the foreign aid planning community to consider as it moves forward with budget and implementation decisions. I hope to discuss these issues with you when I am in Washington next week.

¶2. (SBU) With regard to your efforts to coordinate foreign aid more centrally in Washington, there are four issues I would like to comment on: 1) As I mentioned in the MPP "Blue Skies" exercise, the budget process does not match the planning process. Three to five-year budget commitments would allow continuity in planning and programming; 2) MCC eligibility should not lead to a reduction in USAID funding; 3) conditions in Sri Lanka warrant that our two agencies take a critical look at re-categorizing it as a 'Rebuilding Country'; and, 4) While there are good reasons for a strong guiding hand to ensure budget discipline, thus far the new process sounds highly Washington-centric. I urge you to include a mechanism that allows for significant input from the field perspective, in order to ensure that the budgets are consistently implemented and justified.

Strategic Planning and Budgeting

¶3. (SBU) In October 2003, USAID Washington approved a five-year strategy, with accompanying budget, for Sri Lanka. In the initial year of implementation, the annual budget to USAID/Sri Lanka was in line with this strategy. However, beginning in 2004, and each year since, USAID has faced annual budget cuts of between \$3 and \$21 million USD (as much as 100 percent of some categories). Those cuts have steadily increased each year, with little explanation and no requests for strategy revisions. This 'tug-of-war' approach to budget allocation does not make for sound strategic thinking and confuses the host government and implementing partners.

MCC-Induced USAID Cuts

¶4. (SBU) Post was informed this year that one of the reasons for the budget cuts was Sri Lanka's eligibility for the Millennium Challenge Account (MCA), a program that allocates budgets on a five-year time horizon. Over the past three

years, Sri Lanka has been deemed MCA-eligible. While it is certainly an honor for Sri Lanka to be eligible and recognized as having promoted the concepts of good governance, investing in people and economic freedom (relative to other developing countries), the hard truth is that the road to an MCA compact is bumpy and makes for a slow ride. The bottom line is that the only benefits of MCA-eligibility so far are lots of hard work and drastically reduced ESF and DA levels.

15. (SBU) MCA, with its focus on country-driven plans and removing barriers to economic growth, concentrates on certain areas, including infrastructure. But other crucial needs such as humanitarian assistance, conflict-resolution, good governance, etc. are handled by USAID. Or at least they were, up until Sri Lanka became MCA-eligible, and USAID funding was cut..and cut..and cut again, forcing us to operate on a shoestring, limiting the scope and reach of some of our most successful projects and, as an unintended consequence, undercutting the potential success of MCA-related projects, none of which will focus on these critical areas.

16. (SBU) We are at best six months away from an MCA compact, and possibly another year away from the disbursement of funds. Both we at Post and our contacts in the GSL are looking forward to those days arriving. Meanwhile, US influence and impact in the country is declining as our USAID programs face cutbacks and program closure.

Sri Lanka: Rebuilding more than Transforming

17. (SBU) I understand Sri Lanka has been labeled a "Transforming Country" based on its scores on particular

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measures, including the Millennium Challenge Corporation (MCC) eligibility scales. While Sri Lanka's Western province, which includes the capital city, could be included in a "transforming" category, the north, east and deep south remain mired in poverty, post-tsunami rebuilding and conflict-related upheaval (the current security situation calls into question whether we are "post-conflict" or not). Given these issues, Sri Lanka seems to fit partially in both the "Transforming" and "Rebuilding" categories. Peace building is the most important US foreign policy objective in Sri Lanka. Economic growth will not be sustained without sustained peace. True, those portions of Sri Lanka under the Government's control have a vibrant democracy and generally sound (though far from exemplary) macroeconomic framework. Nonetheless, its significant budget and current account problems remain, and as possible new security requirements loom, any "peace dividend" that has been available could disappear.

18. (SBU) Therefore, I would urge serious consideration and analysis of Sri Lanka's internal situation, as the "numbers game" of applying only quantitative measures, can be misleading.

Concluding Thoughts

19. (SBU) As you look at the challenges before you, and as we consider the huge interplay among US goals, including peaceful resolution of internal conflicts, enhanced democratic institutions, counterterrorism, economic development, increased market access for US business and support for the successful conclusion of the Doha Round, among others, I urge you to consider the following four issues:

-- strategic thinking in budgeting as well as planning - a commitment to continuity is important;

-- greater interplay among overarching USG policies and

goals - MCC and USAID are complementary, but only if both are functioning at full strength and in a cooperative manner;

-- a re-designation of Sri Lanka as a 'Rebuilding Country'; and,

-- inclusion of a strong, practical voice from the field to complement Washington's resource management skills and structure.

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